Price Redetermination,

The IID-SDCWA contract has a provision which may prove to be very damaging to IID landowners's water rights. It is the Price Redetermination provision contained in Article 5 and further explained in Exhibit E of the contract. This price redetermination procedure was included in the contract by IID over the objections of many farmers and landowners who contended it could cause a damaging reduction in the price of water they conserve for transfer.

This provision can be invoked by either party anytime after 10 years, if certain minimum water market conditions are satisfied. It uses a multiple regression analysis formula to establish a price based on certain characteristics of other recent transfers.

Three characteristics must be taken into account. They are 1) water quality measured in "TDS", 2) "reliability" of the supply, and 3) "vintage" or how recently the transfer and price were put into effect. Other characteristics may be added under certain circumstances.

"Vintage" measures price change trends over time—the rate of inflation or deflation. The other two characteristics measure water factors; Total Dissolved Solids, and how likely it is that the full amount of water will be transferred **every** year of the contract.

None of the contract-mandated characteristics measures how the water is conserved. The way the water is conserved is usually a major determinant of how expensive the water will be. Yet whether the water is made available for transfer by fallowing farmland, storage and subsequent retrieval, collection and impoundment, or salvage is not taken into account by the price redetermination procedure.

Our water's characteristics are peculiar to Lower Colorado River water, both in quality and reliability of supply. Other water transferred from the LCR will have very similar characteristics. The regression analysis formula will give much greater weight to prices of any transferred LCR water, in many cases almost completely ignoring the prices of other transferred water. This means that our price, under price redetermination, would very likely be set almost exclusively by the prices of transferred LCR water. This is true even if as few as one or two of the transfers used in the price redetermination procedure involves LCR water.

Most other LCR water users receive credits for their return flows. This means that the water they might transfer would need to be conserved by reductions in farming (fallowing), or storage and retrieval. Since these are among the cheapest methods of conserving water, IID's price would likely be reset downward to near the price of fallowed water &/or water that is retrieved from storage.

IID's contract prohibits farmers from conserving the water by fallowing. It thereby **requires** them to use considerably more expensive methods of conservation. Therefore IID water users could be forced to provide conserved water at below the cost of conservation for as many as 65 of the 75 years of the contract.

A few exhibits should demonstrate the above-referenced features of the price redetermination procedure. Evidence Item # E-1, shows the result when 10 sample transactions are used to determine the expected value of IID's water. Evidence Item # E-2 shows what happens to the expected value of IID's water when the price of one of the same 10

transactions is doubled to $ 206, the expected value of IID's water **declines** by $ 170.

Evidence Item # E-3 shows what happens when only two of the ten sample transactions represent LCR water. The expected value of IID water is very near the average price of the two LCR water transactions. Evidence Item # E-4, shows what happens when the prices of only the two transactions representing LCR water are increased by $100. The expected value of IID's water increases by $ 123. Evidence Item # E-5 shows what happens when, instead of increasing the two LCR transaction prices, the prices of all of the other 8 transactions are increased by $100 each. In this case the expected value of IID's water decreases by $13.

While we can not know for sure what the future will bring, we can be sure that there is great uncertainty about what will happen if the price redetermination feature of the contract is implemented. We can be confident that if transfers involving LCR water are included in the process, IID's price will closely reflect the prices of those transfers. This can be very detrimental to Imperial Valley farmers and landowners and their water rights.

#E-1
Reprice.No.Colo.R

Agreement Valuation Band

Lower Limit	$314
Upper Limit	$373

Expected Value of IID Water $342

IID Characteristics

Reliability	0.9900
TDS Quality	650
Vintage	0

Data from Eligible Transactions

Transaction	Net Value	Reliability	TDS	Vintage
1	237	0.7000	382	3
2	206	0.6000	310	6
3	260	0.7000	272	1
4	236	0.7000	369	4
5	316	0.9000	337	5
6	330	0.9000	300	3
7	208	0.6000	370	4
8	202	0.8000	283	7
9	214	0.8000	322	5
10	227	0.8000	371	3
	243.6	0.7500	331.6	4.1

Findings of Regression body

Parameter	Coefficient	Std Dev	T-statistic	P-Value
Constant	6.3033	2.1454		0.0260
Reliability	0.7697	0.3195		0.0479
TDS	-0.0710	0.3713		0.8545
Vintage	-0.0443	0.0253		0.1366
R2	0.6118			

Sigma	0.1331

Colo R. Avg "0" yr $291 * NONE *

State Water / Object Water

Price	$243.50
TDS : Reliability	-0.09
Reliability	0.500
TDS	332
Vintage	4.10

Prediction Interval Parameter

Run	20%
Alpha	80%
Student T	0.2648
Sigma	0.3265
Expected	5.835

Value	Vintage
271	3
269	6
272	1
292	4
394	5
377	3
248	4
275	7
267	5
259	3
291.4	4.1

#E-2
Reprice.No.Colo.R

Agreement Valuation Band

Lower Limit	$144
Upper Limit	$206

Expected Value of IID Water

$172

IID Characteristics

Reliability	0.9900
TDS Quality	650
Vintage	0

Findings of Regression Study

Parameter	Coefficient	Std Dev	T-statistic	P-Value
Constant	8.6076	4.4453	1.94	0.1010
Reliability	-0.0912	0.6434	-0.14	0.8920
TDS	-0.5339	0.7685	-0.69	0.5132
Vintage	0.0027	0.0534	0.05	0.9611
R2	0.0763			
Sigma	0.2756			

Colo R.   TDS : Reliability   5.86

State Water Project Water

Avg "0" yr	Price	Reliability	TDS	Vintage
$261	$264.20	0.7500	332	4.10

Prediction Interval Parameter

Rule	20%
Alpha	80%
Student T	0.2648
Sigma	0.6764
Expected	5.150

Data from Eligible Transactions

* NONE *

Transaction	Net Value	Reliability	TDS	Vintage	"0" year Value
1	237	0.7000	382	3	235
2	412	0.6000	310	6	405
3	260	0.7000	272	1	259
4	236	0.7000	369	4	233
5	316	0.9000	337	5	312
6	330	0.9000	300	3	327
7	208	0.6000	370	4	206
8	202	0.8000	283	7	198
9	214	0.8000	322	5	211
10	227	0.8000	371	3	225
	264.2	0.7500	331.6	4.1	261.2

Agreement Valuation Band

Lower Limit	$219
Upper Limit	$251

Expected Value of IID Water

$234

IID Characteristics

Reliability	0.9900
TDS Quality	650
Vintage	0

Findings of Regression Study

Parameter	Coefficient	Std Dev	T-statistic	P-Value
Constant	9.5582	1.3659	7.00	0.0004
Reliability	0.6324	0.4115	1.54	0.1752
TDS	-0.6323	0.2206	-2.87	0.0286
Vintage	-0.0613	0.0329	-1.86	0.1118
R2	0.6582			
Sigma	0.1656			

Colo effect	93%
Exp value of IID / avg "0" yr price	78%

Colo R. price

Average	$175
Avg "0" yr	$228

State Water Project Water

Avg "0" yr	Price	Reliability	TDS	Vintage
$318	$249	0.7750	328	4.00

Prediction Interval Parameter

Rule	20%
Alpha	80%
Student T	0.2648
Sigma	0.2527
Expected	5.457

Data from Eligible Transactions

Transaction	Net Value	Reliability	TDS	Vintage	"0" year Value
1	200	0.9900	650	3	240
2	150	0.9900	595	6	217
3	260	0.7000	272	1	276
4	236	0.7000	369	4	302
5	316	0.9000	337	5	429
6	330	0.9000	300	3	397
7	208	0.6000	370	4	266
8	202	0.8000	283	7	310
9	214	0.8000	322	5	291
10	227	0.8000	371	3	273

E-4
Reprice.2.Colo.R.4.8.98

Agreement Valuation Band

Lower Limit	$340
Upper Limit	$376

Findings of Regression Study

Parameter	*Coefficient*	*Std Dev*	*T-statistic*	*P-Value*
Constant	6.6347	1.0258	6.47	0.0006
Reliability	0.9112	0.3090	2.95	0.0257
TDS	-0.1154	0.1657	-0.70	0.5123
Vintage	-0.0572	0.0247	-2.32	0.0598
R2	0.6719			
Sigma	0.1243			

Expected Value of IID Water $357

IID Characteristics

Reliability	0.9900
TDS Quality	650
Vintage	0

Colo effect 107%
Exp value of IID / avg "0" yr price 111%

State Water Project Water

Price	Reliability	TDS	Vintage
$249	0.7750	328	4.00

Prediction Interval Parameter

Rule	20%
Alpha	80%
Student T	0.2648
Sigma	0.1898
Expected	5.878

Colo R. price

Average	Avg "0" yr
$275	$354

Avg "0" yr
$313

"0" year Value

Vintage	Value
3	356
6	352
1	275
4	297
5	421
3	392
4	261
7	301
5	285
3	269

Data from Eligible Transactions

Transaction	Net Value	Reliability	TDS	Vintage
1	300	0.9900	650	3
2	250	0.9900	595	6
3	260	0.7000	272	1
4	236	0.7000	369	4
5	316	0.9000	337	5
6	330	0.9000	300	3
7	208	0.6000	370	4
8	202	0.8000	283	7
9	214	0.8000	322	5
10	227	0.8000	371	3

#E-5
Base Case

Agreement Valuation Band

Lower Limit	$205
Upper Limit	$238

Expected Value of IID Water: $221

IID Characteristics

Reliability	0.9900
TDS Quality	650
Vintage	0

Findings of Regression Study

Parameter	Coefficient	Std Dev	T-statistic	P-Value
Constant	11.6040	1.5228	7.62	0.0003
Reliability	0.1879	0.4587	0.41	0.6962
TDS	-0.9578	0.2460	-3.89	0.0080
Vintage	-0.0462	0.0367	-1.26	0.2548
R2	0.7819			
Sigma	0.1846			

Colo. R. effect 96%

Exp value of IID / avg "0" yr price 58%

State Water Project Water

Reliability	TDS	Vintage
0.7750	328	4.00

	Price	Avg "0" yr
State Water Project Water	$349	$420
Colo R. price	Average $175	Avg "0" yr $214

Data from Eligible Transactions

Transaction	Net Value	Reliability	TDS	Vintage	"0" yr Price
1	200	0.9900	650	3	230
2	150	0.9900	595	6	198
3	360	0.7000	272	1	377
4	336	0.7000	369	4	404
5	416	0.9000	337	5	524
6	430	0.9000	300	3	494
7	308	0.6000	370	4	370
8	302	0.8000	283	7	417
9	314	0.8000	322	5	396
10	327	0.8000	371	3	376
Averages	314.3	0.818	386.9	4.1	379

Prediction Interval Parameters

Rule	20%
Alpha	80%
Student T	0.2648
Sigma	0.2817
Expected	5.398